

# **YORKSHIRE BUILDING SOCIETY**

## **PRODUCT & DISTRIBUTION GOVERNANCE POLICY OVERVIEW**

Updated June 2024

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## 1. Purpose

### The Purpose of the Policy

This policy sets out the Society's approach to the design, delivery, distribution, and ongoing assurance of products and services in line with the Society's risk appetite and regulatory standards, and ensure we act to provide good customer outcomes.

The policy applies to all individuals involved in the design, development, distribution, and ongoing monitoring/assurance of the Society's products and services.

### Regulatory Requirements

Conduct Risk is the risk that firms do not deliver good customer outcomes. The Financial Conduct Authority (FCA) has built on the principles of 'Treating Customers Fairly' and have implemented final rules and guidance for a new Consumer Duty principle. It requires firms to put their customers' needs first and sets higher and clearer standards of consumer protection across financial services. Firms must not only adhere to the rules set out by the FCA but carry out the spirit and principles of what those rules are trying to achieve.

There are numerous regulatory requirements that are incorporated into Product Governance oversight activity, including:

- Consumer Duty
- Principles for Businesses (specifically including the six Consumer Outcomes)
- Mortgage Conduct of Business Sourcebook (MCOBS)
- Banking Conduct of Business Sourcebook (BCOBS)
- Conduct of Business Sourcebook (COBS)
- Consumer Credit Sourcebook (CONC)
- Client Assets Sourcebook (CASS)
- Responsibility of Product Providers and Distributors for the Fair Treatment of Customers (RPPD)
- Senior Management Arrangements, Systems and Controls Sourcebook (SYSC)
- Insurance Conduct of Business Sourcebook (ICOBS)
- Product Intervention and Product Governance Sourcebook (PROD)

Consumer Duty - There are three cross-cutting rules:

- act in good faith,
- avoid causing foreseeable harm to retail customers, and
- enable and support them to pursue their financial objectives

The cross-cutting rules are supported through the delivery of four specific consumer outcomes:

- Products and Services,
- Price and Value,
- Consumer Understanding and,
- Consumer Support

## Risk Appetite

Society expectations on its approach to Compliance & Conduct Risk are outlined in the risk appetite statements.

*We will only offer products and services which meet customer needs, and where we can manage any conduct risks which arise including consideration of customer vulnerability and impacts on and of climate change. We act in good faith to prevent foreseeable harm and if failures occur, we proactively identify, establish root cause and remedy via our own actions.*

*Qualitative High-Level Statement, Compliance & Conduct Risk Appetite 2024 (effective January 2024)*

Product Governance Risk is defined as the following:

- We will offer products and services where our design, distribution, and delivery are regularly tested and monitored, to prevent the potential for customer harm.

Product Governance is strategically important to the Society. Product Governance is a Level 2 Risk under Level 1 Compliance & Conduct Risk, which aims to manage product risk through oversight of product design and assurance activities.

The Society offers its products and services to customers utilising a variety of distribution channels, enabling customer needs to be met however they choose to interact. Product and Distribution Governance provides a framework for the formal approval of new distribution channels. Distribution governance and oversight is provided via the YBS Sales Policy and Regulated Sales and Distribution Risk Framework.

## Key Policy Objectives

The key objective of this Policy is to outline the Society's approach to Product & Distribution Governance and ensure compliance with the four Consumer Duty outcomes (Products and Services, Price and Fair Value, Consumer Support and Consumer Understanding).

The policy also ensures that the society:

- acts in good faith towards retail customers,
- avoids unforeseeable harm to retail customers and,
- enables and supports them to pursue their financial objectives.

The policy and underlying frameworks also outline how products are regularly tested to provide assurance that the products and services the Society provides continue to deliver good outcomes for all customers including those with vulnerable characteristics, throughout the product lifecycle. These activities ensure our products and services do not give rise to customer harm and where possible prevented, or treated if materialised.

## 2. Scope

The Policy applies to all brands and subsidiaries within the Society, and where elements are not applicable these are explicitly called out.

The scope of this policy includes product and services that are currently available for sale/renewal (open) or have previously been offered to Society customers which are now off-sale (closed) (including legacy products offered under the Society's separate brands). At present, this includes:

- Mortgages (Retail Residential, Retail Buy-to-Let including Consumer Buy to Let, Commercial)
- Savings
- Insurance
- Share Plans
- Employee Propositions

Certain products within the Society's portfolio (including ISAs) are governed by specific product rules laid down by HMRC. However, the Society remains responsible for all aspects of how those products are delivered to customers, including distribution, sales process, information provision, training, and servicing.

Product Governance is responsible for the appropriate oversight of Compliance and Conduct Risks, along with some Operational Risk considerations, where applicable.

The Product & Distribution Governance Policy should be read in conjunction with the:

- The Product & Distribution Governance Approval Framework
- Conduct & Operational Risk Assurance Framework

### **Product & Distribution Governance Approval Framework**

- Oversight and Governance of Product & Distribution Approvals, including:
  - Launches of low risk products, services or distribution channels
  - Launches of medium/high risk products, services or distribution channels
  - The withdrawal or closure of a product, service, or distribution channel currently on sale (including the removal of product functionality)
  - The re-launch of a product, service, or distribution channel that has been off sale for over 12 months
  - Changes in design, distribution channel or functionality for existing products and services that are either open or closed (including changes being introduced on a pilot basis)
  - Post Implementation Reviews (PIRs) for medium/high risk propositions, and pilots

### **Conduct & Operational Risk Assurance Framework**

The Conduct & Operational Risk Assurance Framework encompasses the Society's approach to testing all Society products across all relevant brands and channels.

Product Assurance is provided in the following ways:

#### **Product & ESIS Risk Assessments**

Risk assessment is the process by which a range of data and insight is analysed to understand whether there are any potential conduct and/or operational risks in relation to the product or service that should be investigated further. The frequency with which the specific risk assessment is completed is determined by the inherent risks associated with the product group and the risk category that has been allocated i.e. High/Medium/Low.

#### **Product Reviews**

Product reviews seek to provide assurance that the products either manufactured or distributed by the Society (including 3rd party products) do not have the potential risk of causing customer harm, and deliver good customer outcomes, whilst enabling and supporting customers to pursue their financial objectives.

#### **Thematic Reviews**

A bespoke series of thematic reviews that may cover processes/activities that cut across a number of product areas, known issues, regulatory/legislative requirements and/or changes, or other product related activities.

## **Action Tracking**

When actual or potential customer harm is identified, appropriate actions are agreed with the relevant business areas to address or mitigate the risk. This involves the ongoing management of the action tracking database via interaction with designated stakeholders to ensure actions are completed to the required standard and within agreed timescales.

## **Product Governance MI and Reporting**

Through the monitoring of customer outcomes, we identify and manage risks by producing MI submitted to Conduct Risk Committee (CRC) quarterly, and Executive Risk Committee (ERC) bi-annually to ensure appropriate visibility of all Product Governance activity, including key risks and trends.

## **Formal Exceptions**

Product Exceptions – Products offered as staff benefits which the Society is not responsible for developing or servicing e.g., private health insurance.

## **Pricing Oversight**

### **Fair Value**

As part of designing a new, or making changes to, a product or service, the Society needs to ensure that it provides fair value to customers in line with the Price and Fair Value outcome of Consumer Duty and the YBS Fair Value Framework.

Fair Value Assessments (FVA's) will be undertaken by the Trading teams before the launch of all retail products, or when making a change to existing retail products, if the change has a material impact on value. This is to ensure the cost (financial and non-financial) paid by customers is comparable to the features and benefits they receive.

The outputs of the FVA's will be evidenced as part of the product approval process and reported to CRC to ensure appropriate oversight and governance.

FVA's will be considered when undertaking product risk assessments as part of the Conduct & Operational Risk Assurance Framework to ensure products continue to provide fair value to customers throughout their lifecycle.

### **Pricing**

Pricing is an operational/commercial decision and is the responsibility of the relevant Director. All pricing decisions (including fees that represent a core term of the product) are approved through Asset & Liability Committee (ALCO) and outside of the remit of this policy.

However, pricing will be considered from a conduct and fair value perspective as part of the product approval process and CRC governance and oversight when approving propositions or making changes to existing products that could impact on fair value (see above).

This is also considered when undertaking product risk assessments as part of the Product Assurance Framework to ensure products continue to provide fair value to customers throughout their lifecycle.

## **Fees & Charges**

Fees and Charges are reviewed annually by the product teams and will be presented to CRC for approval on an annual basis.

### 3. Definitions

Definitions are covered within the main text.

### 4. Policy Statements

The following statements apply in all cases:

- All products must be designed and distributed in a way that meets customer needs and will not cause customer harm.

#### **Product & Distribution Approval Process**

##### **Stakeholder Engagement**

- Conduct & Operational Risk must be engaged with on all propositional concepts to determine whether they are within the scope of the Framework and indicate the appropriate governance route as required.
- Business Leads must undertake appropriate stakeholder engagement to ensure sufficient SME oversight of all propositions.

##### **Governance Delivery**

- All propositions (including pilot propositions) must follow the requirements set out in the Product & Distribution Governance Approval Framework in accordance with the relevant governance route.

##### **Record Keeping**

- All governance documentation must be retained for recordkeeping purposes and appropriate oversight.
- All governance documentation must obtain the appropriate level of approval prior to propositions being launched.

##### **Reporting and MI**

- All Product Approvals must be reported to CRC through either the 'Monthly Approvals for Noting MI' or 'Quarterly Product Governance MI'.
- All Post-Implementation Reviews of products and services must be reported to CRC either for noting or approval, as determined by Conduct & Operational Risk.

##### **Service Level Agreements (SLAs)**

- Governance activity must be completed within the applicable timescales as noted in the Approvals Framework.
- All overdue governance activity must be reported to CRC on a monthly and quarterly basis.

##### **Breaches**

- Any breaches of the Approval Framework must be reported to Conduct & Operational Risk and presented to CRC where appropriate.

#### **Conduct & Operational Risk Assurance Framework**

##### **Assurance Delivery**

- Quarterly planning of proposed assurance activity must be presented and approved at CRC prior to completion.
- All assurance activity must follow the requirements set out in the Conduct & Operational Risk Assurance Framework.

## Stakeholder Engagement

- Conduct & Operational Risk must engage with all relevant and appropriate stakeholders to ensure an appropriate level of SME input and oversight is obtained.
- Stakeholders must be engaged with following completion of the review to agree the review outcome and where applicable, any actions or recommendations with timescales.

## Service Level Agreements (SLAs)

- The first product risk assessment must be conducted by Conduct & Operational Risk within 6-months of the Post-Implementation Review for Medium/High Risk propositions and within 12-months of launch for Low Risk propositions.
- All actions and recommendations must be tracked by Conduct & Operational Risk, obtaining monthly updates through stakeholder engagement.
- All overdue actions must be reported to CRC on a quarterly basis.

## Reporting and MI

- The outputs of all product/thematic reviews must be reported to CRC:
- Amber/Red Reviews – Ad-hoc basis, at the next meeting after the review has concluded.
- Yellow/Green Reviews – Reported quarterly via 'Quarterly Product Governance MI'.
- All other assurance activity outcomes must be reported to CRC via 'Quarterly Product Governance MI'.

## Breaches

- Any breaches of the Approval Framework must be reported to Conduct & Operational Risk and presented to CRC where appropriate.

## Escalation of Risks/Issues

- CRC represents the primary forum for reviewing Product Governance matters.
- Issues must be escalated to the ERC or Board where the issue is:
  - Outside of risk appetite
  - Outside of an ERC or Board approved policy
  - CRC or the accountable Director feels the issue is material enough to require escalation to ERC or Board for oversight and/or approval.

## 5. Implementation and Monitoring

### Implementation

Individual Directors are responsible for ensuring the colleagues in their function are aware of and adhere to the policy, however periodic training will be supplied to the business by the Conduct & Operational Risk Team within the Conduct & Credit Risk function to ensure understanding of the policy and core processes.

### Monitoring

The Society operates a Three Lines of Defence (LoD) approach towards risk management. Each LoD has different responsibilities for managing the risk and therefore carries different actions.

The first LoD is directly responsible for the day to day management and control of risk throughout the business, generally within business functions. They monitor the implementation of this policy through:

- Ongoing reviews carried out by the Conduct & Operational Risk Team
- Reporting of assurance activities to appropriate governance forums, via the CDRC, ERC and Conduct Risk MI Book and Conduct Risk appetite reporting



- Annual review of policy and supporting frameworks ensuring they remain aligned to regulation (and the latest interpretation of that regulation)
- Conduct & Operational Risk also have oversight of new/changes to Product & Distribution activity, including the P&DG Approval Framework Levels of assurance activity are defined and approved quarterly, with all other C&OR activity defined and approved annually within a QA plan.

The second line is accountable for competent risk management across the society and overseeing the effectiveness and integrity of the Enterprise Risk Management Framework. They monitor the implementation of this policy through various activities defined in the annual Compliance Monitoring Plan.

The final LoD is providing independent assurance across the first and second LoD through our internal Audit function. They monitor the implementation of this policy through various activities defined in the annual Audit Plan.

## **6. Approval**

The Policy is reviewed at least annually by the Director of Conduct & Credit Risk and approved annually on behalf of the Board by the Conduct Risk Committee (CRC).